

ELIAS C. ALVORD (1942)
ELLSWORTH C. ALVORD (1964)

ROBERT W. ALVORD
ALBERT H. GREENE
CARL C. DAVIS*
CHARLES T. KAPPLER
ROBERT S. HOPE
JOHN H. DOYLE
MILTON C. GRACE*

*NOT A MEMBER OF D.C. BAR

LAW OFFICES
ALVORD AND ALVORD

200 WORLD CENTER BUILDING

918 SIXTEENTH STREET, N.W.

WASHINGTON, D.C.

20006

January 26, 1979

OF COUNSEL
JESS LARSON

CABLE ADDRESS
"ALVORD"

TELEPHONE
AREA CODE 202
393-2266

9-026A182

JAN 26 1979

RECORDATION NO. 10052 Filed 1425

JAN 26 1979 - 2 20 PM

INTERSTATE COMMERCE COMMISSION

Secretary
Interstate Commerce Commission
Washington, D.C. 20423

Dear Sir:

Enclosed for recordation under the provisions of 49 U.S.C. 11303; Section 20c of the former Interstate Commerce Act are the original and twelve counterparts of an Equipment Lease dated as of December 15, 1978 ("Document").

The names and addresses of the parties to the Document are, as follows:

Lessor: Continental Illinois National Bank and
Trust Company of Chicago, as Trustee
under 1978 Illinois Central Gulf Leasing Trust
231 South LaSalle Street
Chicago, Illinois 60693

Lessee: Illinois Central Gulf Railroad Company
233 North Michigan Avenue
Chicago, Illinois 60601

A general description of the railroad equipment covered by the Document appears in the attached Schedules A-1, A-2, A-3 and A-4.

The undersigned is agent for the Lessor named above for the purpose of recording the Document and has knowledge of the matters set forth therein.

Please return the original and eleven counterparts of the Document to the bearer hereof or to Cary J. Malkin, Esq., Mayer, Brown & Platt, 231 South LaSalle Street, Chicago, Illinois 60604.

Counterpart - C.T. Kappler

Secretary
Interstate Commerce Commission
January 26, 1979
Page Two

Also enclosed is a check in the amount of \$50.00 payable to the order of the Interstate Commerce Commission covering the required recordation fee.

Very truly yours,

ALVORD AND ALVORD
Agent for Continental Illinois
National Bank and Trust Company
of Chicago, as Trustee

By Charles T. Kappler

Charles T. Kappler

Enclosures

SCHEDULE A-1
(to Equipment Lease)

DESCRIPTION OF ITEMS OF EQUIPMENT

DESCRIPTION AND MARK AND NUMBER OF REHABILITATED ITEMS OF EQUIPMENT:	365 70-ton 50' Box Cars (marked and numbered as set forth in the Annex attached heret
PURCHASE PRICE OF ORIGINAL EQUIPMENT:	\$7,325 per Item (\$2,673,625 for 365 Items)
REHABILITATION PRICE OF EQUIPMENT:	\$19,900 per Item (\$7,263,500 for 365 Items)
TOTAL COST OF EQUIPMENT:	\$27,225 per Item (\$9,937,125 for 365 Items)
PLACE OF DELIVERY:	Plants of the Leseee at Centralia, Illinois or McComb, Mississippi
OUTSIDE DELIVERY DATE:	June 30, 1979

ANNEX TO SCHEDULE A-1

365 70-ton 50' Box Cars numbered as follows:

ICG 591007	ICG 590003	ICG 567629
591010	590029	567661
591017	590050	567691
591018	590053	567729
591035	590064	567766
591040	590075	567771
591046	590088	567873
591047	590095	567924
591051	590102	567930
591058	590107	567397
591066	590112	568425
591067	590121	568446
591074	590127	568510
591083	590133	568532
591101	590134	568544
591107	590143	568567
591108	590154	568572
591127	590174	568520
591136	590187	568694
591138	590188	568758
591144	590192	568772
591145	590018	568784
591146	590019	568802
591152	590073	568509
591153	590115	568535
591154	567300	568554
591155	567301	568581
591157	567306	568615
591166	567394	568810
591168	567402	568833
591200	567405	562407
591210	567450	562408
591212	567474	562415
591224	567527	562419
591226	567548	562427
591229	567616	562468
591239	567667	562502
591260	567726	562507
591265	567733	562540
591267	567752	562617
591009	567779	562625
591026	567814	562691
591036	567834	562698
591081	567843	562740
591092	567859	562779
591095	567875	562804
591097	567331	562812
591114	567359	562884
591116	567431	562913
591172	567442	562921
591218	567477	562410
591221	567502	562413
591251	567513	562463
591274	567580	562464
591283	567610	562853

ANNEX TO SCHEDULE A-1

ICG 561052	ICG 511300	ICG 513863	ICG 550002
561055	511302	513892	550005
561057	511306	513893	550009
561061	511307	513898	550010
561084	511308	513904	550016
561089	511310	513907	550018
561091	511311	513914	550021
561216	511312	513923	550022
561221	511379	513940	550024
561225	511383	513942	550033
561233	511394	513944	550035
561236	511420	513946	550046
561248	511423	513949	550048
561282	511450	513957	550051
561288	511471	513969	550055
<u>561298</u>	511478	513974	550059
<u>561031</u>	511489	513975	550078
561209	511502	513982	550082
561261	511567	513994	550089
<u>561059</u>	511574	513996	550145
<u>561604</u>	511584	<u>513998</u>	550156
561605	511588	514005	550158
561606	511590	514010	550184
561609	511469	514014	550191
561611	<u>511592</u>	514018	550193
561614	<u>513802</u>	514038	550218
561627	513804	514039	550245
561652	513805	514043	550248
561677	513806	514044	550255
561612	513808	514050	550264
561707	513809	514052	550268
561708	513812	514068	550292
561712	513816	514078	550294
561714	513818	514086	550299
561716	513819	514089	550007
561786	513821	514092	550023
561792	513823	514095	550030
561843	513824	514096	550032
561975	513825	<u>513872</u>	550036
561763	513827	<u>564058</u>	550040
<u>563506</u>	513830	<u>513833</u>	550063
563509	513832	513867	550081
563517	513835	513871	550096
563527	513837	513959	550131
563535	513838	513966	550170
563537	513839	513979	550180
563549	513840	513986	550199
563508	513845	<u>513997</u>	550274
563511	513848	<u>514011</u>	550281
<u>563538</u>	513859	514062	550290

SCHEDULE A-2
(to Equipment Lease)

DESCRIPTION OF ITEMS OF EQUIPMENT

DESCRIPTION AND MARK AND NUMBER OF REHABILITATED ITEMS OF EQUIPMENT:	46 70-ton and 100-ton 60' Box Cars (marked and numbered as set forth in the Annex attached hereto)
PURCHASE PRICE OF ORIGINAL EQUIPMENT:	\$10,950 per Item (\$503,700 for 46 Items)
REHABILITATION PRICE OF EQUIPMENT:	\$19,150 per Item (\$880,900 for 46 Items)
TOTAL COST OF EQUIPMENT:	\$30,100 per Item (\$1,384,600 for 46 Items)
PLACE OF DELIVERY:	Plants of the Lessee at Centralia, Illinois or McComb, Mississippi
OUTSIDE DELIVERY DATE:	June 30, 1979

ANNEX TO SCHEDULE A-2

46 70-ton and 100-ton 60' Box Cars numbered as follows:

ICG 670009

670022

670025

670030 ✓

670031

660053

660057

660081

660091 ✓

660064

660073

670008

670019

670032 ✓

670159

670152

670166

620191 ✓

670196 ✓

660127

660144

660146

660155

660159

660195 ✓

660197 ✓

660122

660126

660129

660156

660182

660166

670249

620240

620248 } 670

620259 }

620261

670210

670215

670217

670222 ✓

670224

670227

670264

670297

670298

SCHEDULE A-3
(to Equipment Lease)

DESCRIPTION OF ITEMS OF EQUIPMENT

DESCRIPTION AND MARK AND NUMBER OF REHABILITATED ITEMS OF EQUIPMENT:	57 100-ton Covered Hoppers (marked and numbered as set forth in the Annex attached hereto)
PURCHASE PRICE OF ORIGINAL EQUIPMENT:	\$9,030 per Item (\$514,710 for 57 Items)
REHABILITATION PRICE OF EQUIPMENT:	\$19,150 per Item (\$1,091,550 for 57 Items)
TOTAL COST OF EQUIPMENT:	\$28,180 per Item (\$1,606,260 for 57 Items)
PLACE OF DELIVERY:	Plants of the Lessee at Centralia, Illinois or McComb, Mississippi
OUTSIDE DELIVERY DATE:	June 30, 1979

ANNEX TO SCHEDULE A-3

57 100-ton Covered Hoppers numbered as follows:

ICG 745215	ICG 764620
745230	764670
745236	764676
745301	764632
745305	764654
745337 ✓	764693
745357	764603
745374	764605 ✓
745386	764611
745397	764721
764300	764722
764305	764759
764306	764762
764307	764767
764448 ✓	764775
764495	764796
764500	764782
764553	764799
764554	765606
764598	765613
764327	765618
755007	765622
755022 ✓	765647 ✓
755092	765649
755126	765651
764606	765655
764607 ✓	765664
764614	765605
764617	

SCHEDULE A-4
(to Equipment Lease)

DESCRIPTION OF ITEMS OF EQUIPMENT

DESCRIPTION AND MARK AND NUMBER OF REHABILITATED ITEMS OF EQUIPMENT:	27 70-ton 60' Flat Cars (marked and numbered as set forth in the Annex attached hereto)
PURCHASE PRICE OF ORIGINAL EQUIPMENT:	\$5,275 per Item (\$142,425 for 27 Items)
REHABILITATION PRICE OF EQUIPMENT:	\$10,000 per Item (\$270,000 for 27 Items)
TOTAL COST OF EQUIPMENT:	\$15,275 per Item (\$412,425 for 100 Items)
PLACE OF DELIVERY:	Plants of the Lessee at Centralia, Illinois or McComb, Mississippi
OUTSIDE DELIVERY DATE:	June 30, 1979

ANNEX TO SCHEDULE A-4

27 70-ton 60' Flat Cars numbered as follows:

ICG 960101
960107
960122
910131
910134
910137
910142
910150
910153
960157
910158
910162
910169
960170
910173
910178
910181
910182
910183
960188
960214
960220
910161
910180
960187
960194
960200

Interstate Commerce Commission
Washington, D.C. 20423

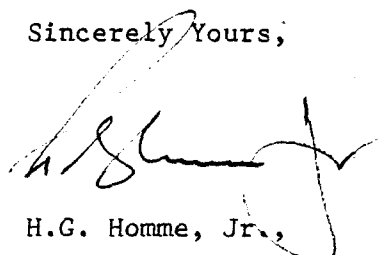
OFFICE OF THE SECRETARY

Charles T. Kappler
Alvord And Alvord
200 World Center Building
918 Sixteenth Street, N. W.
Washington, D. C. 20006

Dear Mr. Kappler:

The enclosed document(s) was recorded pursuant to the provisions of Section 20(c) of the Interstate Commerce Act, 49 U.S.C. 20(c), on January 26, 1979 at 2:20 PM , and assigned recordation number(s) 10052

Sincerely Yours,



H.G. Homme, Jr.,
Secretary

Enclosure(s)

SE-30-T
(2/78)

RECORDATION NO. 10052 Filed 1425

JAN 26 1979 - 2 20 PM

INTERSTATE COMMERCE COMMISSION

EQUIPMENT LEASE

Dated as of December 15, 1978

Between

CONTINENTAL ILLINOIS NATIONAL BANK AND TRUST COMPANY
OF CHICAGO,
as Trustee under 1978 Illinois Central Gulf Leasing Trust

LESSOR

and

ILLINOIS CENTRAL GULF RAILROAD COMPANY

LESSEE

(495 Rehabilitated Cars)

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Attachments to Equipment Lease:

- Schedule A-1 - Description of 70-ton 50' Box Cars
- Schedule A-2 - Description of 70-ton and 100-ton 60' Box Cars
- Schedule A-3 - Description of 100-ton Covered Hoppers
- Schedule A-4 - Description of 70-ton 60' Flat Cars
- Schedule B - Certificate of Acceptance Under Equipment Lease
- Schedule C - Schedule of Casualty Value
- Schedule D - Schedule of Insurance

ILLINOIS CENTRAL GULF RAILROAD COMPANY

EQUIPMENT LEASE

THIS EQUIPMENT LEASE dated as of December 15, 1978 between CONTINENTAL ILLINOIS NATIONAL BANK AND TRUST COMPANY OF CHICAGO, a national banking association, as trustee (the "Lessor") under a Trust Agreement (herein, as from time to time amended, called the "Trust Agreement") dated as of December 15, 1978 with CONTINENTAL ILLINOIS LEASING CORPORATION, a Delaware corporation (the "Trustor"), providing for the creation of the trust known as the 1978 Illinois Central Gulf Leasing Trust, and ILLINOIS CENTRAL GULF RAILROAD COMPANY, a Delaware corporation (the "Lessee");

W I T N E S S E T H:

That for and in consideration of the premises and of the rental to be paid and the covenants hereinafter mentioned the parties hereby agree as follows:

SECTION 1 PURCHASE, REHABILITATION AND DELIVERY OF EQUIPMENT.

1.1 Purchase and Rehabilitation Arrangements. IC Leasing, Inc., a Delaware corporation (the "Seller") and the Lessor have entered into a Hulk Purchase Agreement dated as of December 15, 1978 (herein, as from time to time amended, called the "Hulk Purchase Agreement") providing for the sale by the Seller to the Lessor of certain used items of railroad equipment, and the Lessor and the Illinois Central Gulf Railroad Company, as Contractor (the "Contractor"), have entered into a Rehabilitation Agreement dated as of December 15, 1978 (herein, as from time to time amended dated as of December 15, 1978), called the "Rehabilitation Agreement") providing for the rehabilitation by the Contractor of said items of railroad equipment into those rehabilitated items of railroad equipment (collectively the "Equipment" or "Items of Equipment" and individually an "Item" or "Item of Equipment") described in Schedules A-1, A-2, A-3 and A-4 attached hereto and made a part hereof in accordance with the specifications (the "Specifications") referred to in the Rehabilitation Agreement, and upon delivery of each Item of Equipment and the acceptance of such Item of Equipment as provided in Section 1.2 hereof, the Lessor shall lease and let such Item of Equipment to the Lessee and the Lessee shall hire such Item of Equipment from the Lessor for the rental and on and subject to the terms and conditions herein set forth. The Lessor, the Lessee and the Trustor intend to enter into a Participation Agreement dated as of December 15, 1978 (the "Participation Agreement") with Harris Trust and Savings Bank, as Security Trustee (the "Security

Trustee"), and certain lenders (the "Lenders"), setting forth the understanding and agreement of said parties as to the arrangements for payment by the Lessor of the cost of purchase of said used items of railroad equipment and for the rehabilitation thereof into the Equipment.

1.2 Delivery and Acceptance of Items. The Lessor will cause each Item of Equipment to be tendered to the Lessee at such point or points as may be determined in accordance with the provisions of Section 2 of the Rehabilitation Agreement. Upon such tender, the Lessee will cause an inspector designated and authorized by the Lessee to inspect the same, and, if such Item of Equipment is found to be in good order, to accept delivery of such Item of Equipment and to execute and deliver to the Lessor a Certificate of Acceptance in the form attached hereto as Schedule B (the "Certificate of Acceptance") with respect to such Item of Equipment; provided, however, that the Lessee shall not accept and the Lessor shall have no obligation to lease any Item of Equipment delivered after the Outside Delivery Date therefor set forth in the Schedule to this Lease describing said Item.

1.3 Lessee's Satisfaction with Equipment; Conformance with Specifications and Requirements. The Lessee's execution and delivery to the Lessor of a Certificate of Acceptance with respect to each Item of Equipment shall conclusively establish that such Item of Equipment is acceptable to and accepted by the Lessee under this Lease, notwithstanding any defect with respect to design, manufacture, condition or in any other respect, and that such Item of Equipment is in good order and condition and appears to conform to the Specifications applicable thereto and to all applicable United States Department of Transportation and Interstate Commerce Commission requirements and specifications, if any, and to all standards recommended on the date of execution and delivery of this Lease by the Association of American Railroads (the "A.A.R.") reasonably interpreted as being applicable to railroad equipment of the character of the Equipment as rehabilitated. By execution and delivery of such Certificate of Acceptance, the Lessee represents that it has no knowledge of any such defect.

SECTION 2 RENTALS AND PAYMENT DATES.

2.1 Rentals for Equipment. The Lessee agrees to pay the Lessor, on the dates provided in Section 2.3 hereof, the following rentals for each Item of Equipment leased hereunder:

- (a) Interim Rental. For each Item of Equipment, quarterly installments of interim rental ("Interim Rental") on the Total Cost of such Item (as set forth in the Schedule describing said Item of

Equipment) at a rate per annum (computed on the basis of the actual number of elapsed days) equal to the Continental Prime Rate, which rate shall change when and as said Continental Prime Rate changes, for the period from and including the date on which such Item is accepted hereunder by the Lessee to, but not including, July 13, 1979 (the "Term Lease Commencement Date").

Continental Prime Rate shall mean the rate of interest charged from time to time by Continental Illinois National Bank and Trust Company of Chicago at its principal office in Chicago, Illinois to its largest and most credit-worthy commercial borrowers on 90-day unsecured commercial loans.

- (b) Fixed Rental. For each Item of Equipment, sixty (60) consecutive quarterly installments of rental (the "Fixed Rental"), each in the amount of 2.515% of the Total Cost of such Item.

2.2 Adjustment of Rentals. In determining the amount of each installment of Fixed Rental payable pursuant to Section 2.1 hereof, the Trustor, the Trustee and the Lessee have assumed the following: (a) that the Lenders will make fifteen year loans in the amounts and in the manner contemplated by the letter from the Trustor to the Lessee dated December 5, 1978 (herein called the "Commitment Letter"); and (b) that the interest rate payable in respect of notes evidencing such loans (herein called the "Term Notes") issued or to be issued to the Lenders by the Lessor to finance the Equipment shall be at the rate of 10.25% per annum for as long as the Term Notes remain outstanding. In the event that: (x) any Lender shall fail to make its respective loan, or (y) the interest rate payable in respect of the Term Notes shall at any time be or become more or less than 10.25% per annum, each of the unpaid installments of Fixed Rental and the Casualty Values shall be adjusted to an amount as shall, in the reasonable opinion of the Trustor, cause the Trustor's after-tax economic yields and cash flows (computed on the same assumptions, including the tax rates, as were utilized by the Trustor in originally evaluating this transaction) to equal the after-tax economic yields and cash flows that would have been realized by the Trustor if the Lenders had made their loans pursuant to the Participation Agreement or such interest rate had not changed; provided, that the Fixed Rental and the Casualty Values, as so adjusted, with respect to any Item of Equipment shall in no event be reduced below amounts necessary to discharge that portion of the principal of and/or interest on the Term Notes due and payable on each rent payment date under this Lease. In the event that the Participation Agreement is not executed and delivered by all

of the parties on or before March 15, 1979, or such other date upon which the Trustor and the Lessee shall agree, then the Fixed Rental and Casualty Value and other terms of this Lease shall be adjusted in a manner which will, in the reasonable opinion of the Trustor and the Lessee, reflect the full equity option set forth in the Commitment Letter.

2.3 Rental Payment Dates. The installments of Interim Rental and the installments of Fixed Rental for each Item of Equipment shall be due and payable as follows:

- (a) Interim Rental. Interim Rental on each Item shall be payable for the period from and including the date on which such Item is accepted hereunder to and including July 12, 1979 quarterly in arrears on the last day of each calendar quarter and on the Term Lease Commencement Date, with the first such payment, if any, being due on March 31, 1979.
- (b) Fixed Rental. Fixed Rental on the Equipment shall be payable for the period from and including the Term Lease Commencement Date to and including July 13, 1994 quarterly in arrears, with the first such payment being due on October 13, 1979.

If any of the rent payment dates is not a business day, the rent payment otherwise payable on such date shall be payable on the next succeeding business day. For purposes of this Lease, the term "business day" means calendar days, excluding Saturdays, Sundays and holidays on which banks in the State of Illinois are authorized or required to close.

2.4 Place of Rent Payment. The Lessor irrevocably instructs the Lessee to make all payments [other than as provided in the next following sentence of this Section 2.4 and other than payments owing to the Lessor pursuant to Sections 6, 10.2, 11.1, (with respect to public liability insurance) and 20.3 hereof or payments due or becoming due following the payment in full of all principal, premium, if any, and interest on the Term Notes of the Lessor to be issued pursuant to the Participation Agreement and the Interim Notes (the "Interim Notes") of the Lessor issued pursuant to the Amended and Restated Interim Loan Agreement dated as of December 15, 1978 (herein, as from time to time amended, called the "Interim Loan Agreement") between the Lessor and Continental Illinois Leasing Corporation (the "Interim Lender"), which payments shall be made directly to the Lessor or the Trustor at such place and in such manner as the Lessor shall specify to the Lessee in writing] provided for in this Lease at the principal office of the Security Trustee for the account of the Lessor payable to the Security Trustee, with instructions to the Security

Trustee, first, to apply such payments to satisfy the obligations of the Lessor in respect of the Term Notes known to the Security Trustee to be due and payable on the date such payments are due and payable hereunder, and second, so long as no Event of Default hereunder or under the Security Agreement-Trust Deed to be dated as of December 15, 1978 (the "Security Agreement") between the Lessor and the Security Trustee shall have occurred and be continuing, to pay any balance promptly to the Lessor; provided, however, that if the Security Agreement is not executed and delivered, then all payments due and payable hereunder shall be made directly to the Lessor or the Trustor at such place and in such manner as the Lessor shall specify from time to time in writing to the Lessee. The Lessor further irrevocably instructs the Lessee to make payments in respect of the Interim Notes directly to the Interim Lender in accordance with the terms of the Interim Loan Agreement. The Interim Notes and the Term Notes are hereinafter collectively referred to as the "Notes". The Lessee agrees that it will make all payments due hereunder by wire transfer at the opening of business on the due date of such payment of Federal or otherwise immediately available funds to the party to whom such payment is to be made, or, if so requested in writing by a party entitled to receive a payment hereunder, by check of the Lessee drawn on a bank located in Chicago, Illinois, and mailed to such party at the address so provided.

2.5 Net Lease. This Lease is a net lease and the Lessee shall not be entitled to any abatement of rent or reduction thereof, including, but not limited to, abatements or reductions due to any present or future claims of the Lessee against the Lessor under this Lease or otherwise or against any assignee of the Lessor pursuant to Section 16 hereof, nor except as otherwise expressly provided herein, shall this Lease terminate, or the respective obligations of the Lessor or the Lessee be otherwise affected, by reason of any defect in or damage to or loss or destruction of all or any of the Equipment from any cause whatsoever, the taking or requisitioning of the Equipment by condemnation or otherwise, the lawful prohibition of the Lessee's use of the Equipment, the interference with such use by any private person or corporation, the invalidity or unenforceability or lack of due authorization or other infirmity of this Lease, or lack of the right, power or authority of the Lessor to enter into this Lease, or for any other cause whether similar or dissimilar to the foregoing, any present or future law to the contrary notwithstanding, it being the intention of the parties hereto that the rents and other amounts payable by the Lessee hereunder shall continue to be payable in all events unless the obligation to pay the same shall be terminated pursuant to Section 11 hereof, or until, pursuant to Section 13 hereof, the Equipment has been stored by the Lessee for the Lessor for the full period therein provided or leaves the Lessee's lines for off-line delivery to the Lessor.

SECTION 3 TERM OF THE LEASE.

The term of this Lease as to each Item of Equipment shall begin on the date of the delivery to and acceptance by the Lessee of such Item of Equipment and shall terminate fifteen (15) years following the Term Lease Commencement Date in respect of such Item, subject to the provisions of Sections 11 and 18 hereof.

SECTION 4 OWNERSHIP AND MARKING OF EQUIPMENT.

4.1 Retention of Title. The Lessor, as between the Lessor and the Lessee, shall and hereby does retain full legal title to the Equipment notwithstanding the delivery thereof to and possession and use thereof by the Lessee.

4.2 Duty to Number and Mark Equipment. The Lessee will cause each Item of Equipment to be kept numbered with its respective road number as set forth in Schedule A-1, A-2, A-3 or A-4 hereto, as the case may be, and will keep and maintain, plainly, distinctly, permanently and conspicuously marked by a plate or stencil printed in contrasting color upon each side of each Item of Equipment in letters not less than one inch in height as follows:

"OWNED BY AND LEASED FROM A BANK OR TRUST COMPANY AS TRUSTEE, AND SUBJECT TO A SECURITY AGREEMENT FILED UNDER SECTION 11303 OF THE REVISED INTERSTATE COMMERCE ACT".

with appropriate changes thereof and additions thereto as from time to time may be required by law or reasonably required by the Lessor in order to protect the title of the Lessor to such Item of Equipment, its rights under this Lease and the rights of any assignee under Section 16 hereof. The Lessee will not place any such Item of Equipment in operation or exercise any control or dominion over the same until the required legend shall have been so marked on both sides thereof and will replace promptly any such names and word or words which may be removed, defaced or destroyed. The Lessee will not change the road number of any Item of Equipment except in accordance with a statement of new road numbers to be substituted therefor, which statement previously shall have been filed with the Lessor by the Lessee and filed, recorded or deposited in all public offices where this Lease shall have been filed, recorded or deposited.

4.3 Prohibition Against Certain Designations. Except as above provided, the Lessee will not allow the name of any person, association or corporation to be placed on the Equipment as a designation that might be interpreted as a claim of

ownership; provided, however, that the Lessee may cause the Equipment to be lettered with the names or initials or other insignia customarily used by the Lessee or its affiliates on railroad equipment used by it of the same or a similar type for convenience of identification of the right of the Lessee to use the Equipment under this Lease.

SECTION 5 DISCLAIMER OF WARRANTIES.

THE LESSOR LEASES THE EQUIPMENT AS-IS WITHOUT WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO (A) THE FITNESS FOR ANY PARTICULAR PURPOSE OR MERCHANTABILITY OF ANY ITEM OR ITEMS OF EQUIPMENT, INCLUDING, WITHOUT LIMITATION, THEIR VALUE, CONDITION, DESIGN OR OPERATION, (B) THE LESSOR'S TITLE THERETO, OR (C) ANY OTHER MATTER WHATSOEVER, IT BEING AGREED THAT ALL SUCH RISKS, AS BETWEEN THE LESSOR AND THE LESSEE, ARE TO BE BORNE BY THE LESSEE. The Lessor hereby appoints and constitutes the Lessee its agent and attorney-in-fact during the term of this Lease so long as no Event of Default (as defined in Section 14.1 hereof) shall have occurred and be continuing, to assert and enforce, from time to time, in the name and for the account of the Lessor and the Lessee, as their interests may appear, but in all cases at the sole cost and expense of the Lessee, whatever claims and rights the Lessor may have as owner of the Equipment against any manufacturers or contractors in respect thereof.

SECTION 6 LESSEE'S INDEMNITY.

6.1 Scope of Indemnity. The Lessee shall defend, indemnify and save harmless the Lessor, the Trustor, the Security Trustee and the Lenders and their respective successors, agents and assigns from and against:

- (a) any and all loss or damage of or to the Equipment, usual wear and tear excepted, and
- (b) any claim, cause of action, damages, liability, cost or expense (including, without limitation, counsel fees and costs in connection therewith) which may be incurred in any manner by or for the account of any of them (i) relating to the Equipment or any part thereof, including, without limitation, the possession, construction, reconstruction, rehabilitation, purchase, delivery, installation, ownership, leasing, return, sale or disposition of the Equipment or as a result of the use, maintenance, repair, replacement, operation or the condition thereof (whether defects are latent or discoverable by the Lessor or by the Lessee), (ii) by reason or as the result of any act or omission

of the Lessee for itself or as agent or attorney-in-fact for the Lessor hereunder, or under any of the Participation Agreement, the Trust Agreement, the Hulk Purchase Agreement, the Rehabilitation Agreement, the Security Agreement, the Interim Loan Agreement and a Fee Agreement between the Lessee and the Lessor dated as of December 15, 1978 (such agreements being hereinafter referred to as the "Operative Agreements"), (iii) as a result of claims for patent infringements, or (iv) as a result of claims for negligence or strict liability in tort relating to the Equipment and the Operative Agreements.

It is understood, however, that the Lessee is not required to indemnify the Lessor, the Trustor, the Security Trustee and the Lenders, and their respective successors, agents and assigns from and against any claim, cause of action, damages, liability, cost or expense which may be incurred in any manner by or for the account of any of them relating to the failure of the Trustee to apply funds actually received by it in accordance with the Trust Agreement and the Security Agreement. Lessor shall give Lessee and Lessee shall give Lessor notice of any event or condition which requires indemnification by Lessee hereunder, or any allegation of such event or condition, promptly upon obtaining knowledge thereof. Lessee shall pay all amounts due hereunder promptly on notice thereof from Lessor.

6.2 Continuation of Indemnities and Assumptions. The indemnities and assumptions of liability in this Section 6 contained shall continue in full force and effect notwithstanding the termination of this Lease, or the termination of the term hereof in respect of any one or more Items of Equipment, whether by expiration of time, by operation of law or otherwise; provided, however, that such indemnities and assumptions of liability shall not apply in respect of any matters referred to in subsection (a) or clause (i) or (ii) or (iv) of subsection (b) of Section 6.1 hereof occurring after the termination of this Lease, except for any such matters occurring after the termination arising in connection with the Lessee's assembling, delivering, storing or transporting of the Equipment as provided in Section 13 or 15, as the case may be, and provided further, that such indemnities and assumptions of liability shall not apply in respect of the matters referred to in clause (iii) of subsection (b) of Section 6.1 hereof occurring after the termination of this Lease for claims arising out of modifications made after the termination of this Lease to the Items of Equipment by or at the direction of anyone other than the Lessee. The Lessee shall be entitled to control, and shall assume full responsibility for, the defense of such claim or liability, and may select such counsel as it deems appropriate in connection

with such matter; provided that, if Lessor shall reasonably determine that it is in the best interests of the Lessor or the Trustor to appoint another counsel, then the Lessee agrees to the appointment of such alternative counsel as the Lessor shall select and to pay the reasonable fees and expenses thereof. The indemnities and assumptions of liabilities set forth in this Section 6 do not constitute a guaranty of a residual value in the Equipment nor a guaranty of payment of the Notes.

SECTION 7 RULES, LAWS AND REGULATIONS.

The Lessee agrees to comply with all governmental laws, regulations, requirements and rules (including, without limitation, the rules of the United States Department of Transportation, the Interstate Commerce Commission and, if and to the extent permitted thereby, the current Interchange Rules or supplements thereto of the Mechanical Division, A.A.R.) as the same may be in effect from time to time with respect to the use, maintenance and operation of each Item of Equipment subject to this Lease. In case any equipment or appliance is reasonably interpreted as being required to be installed on such Item of Equipment in order to comply with such laws, regulations, requirements and rules, the Lessee agrees to make such changes, additions and replacements at its own expense; provided, however, that Lessee may, in good faith and by appropriate legal proceedings, contest the validity or application of any such law, regulation, requirement or rule in any reasonable manner which does not in the opinion of the Lessor and Security Trustee adversely affect the property rights, or interests of the Lessor and Security Trustee in the Equipment or hereunder.

SECTION 8 USE AND MAINTENANCE OF EQUIPMENT.

The Lessee shall use the Equipment only in the manner for which it was designed and intended and so as to subject it only to ordinary wear and tear. The Lessee shall, at its own cost and expense, maintain and keep the Equipment in good order, condition and repair, ordinary wear and tear expected, suitable for use in interchange (if and to the extent permitted by the Interchange Rules or supplements thereto of the A.A.R.). Except as required by the provisions of Section 7 hereof, and except as otherwise permitted by the provisions of this Section 8, the Lessee shall not modify any Item of Equipment without the prior written authority and approval of the Lessor which shall not be unreasonably withheld provided that the Lessor agrees to consent to any modifications that do not reduce the value or materially change the character of such Item. Any parts installed or replacements made by the Lessee upon any Item of Equipment pursuant to Section 7 hereof or pursuant to its obligation to maintain and keep the Equipment in good order,

condition and repair under this Section 8 shall be considered accessions to such Item of Equipment and title thereto shall be immediately vested in the Lessor without cost or expense to the Lessor. The Lessee shall make no other additions or improvements to any Item of Equipment unless the same are readily removable without causing material damage to such Item of Equipment. If the Lessee shall at its cost cause such readily removable additions or improvements to be made to any Item of Equipment, the Lessee agrees that it will, prior to the return of such Item of Equipment to the Lessor hereunder, remove the same at its own expense without causing material damage to such Item of Equipment. Title to any such readily removable additions or improvements shall remain with the Lessee.

SECTION 9 LIENS ON THE EQUIPMENT.

The Lessee shall pay or satisfy and discharge any and all claims against, through or under the Lessee and its successors or assigns which, if unpaid, might constitute or become a lien or a charge upon the Equipment, and any liens or charges which may be levied against or imposed upon any Item of Equipment as a result of the failure of the Lessee to perform or observe any of its covenants or agreements under this Lease, but the Lessee shall not be required to pay or discharge any such claims so long as it shall, in good faith and by appropriate legal proceedings contest the validity thereof in any reasonable matter which will not affect or endanger the title and interest of the Lessor to the Equipment. The Lessee's obligations under this Section 9 shall survive the termination of this Lease.

SECTION 10 FILING, PAYMENT OF FEES AND TAXES.

10.1 Filing. The Lessee will, at its sole expense, cause this Lease and the Security Agreement (or a financing statement of similar nature thereof if and to the extent permitted or required by applicable law) to be duly filed, recorded or deposited with the Interstate Commerce Commission in accordance with Section 11303 of the Revised Interstate Commerce Act, with the Registrar General of Canada (with notice of such deposit to be published in The Canada Gazette) in accordance with Section 86 of the Railway Act of Canada and in such other places within or without the United States as shall be required by law for the protection of the Lessor's title to, and the Security Trustee's security interest in, the Equipment and this Lease. The Lessee will, from time to time, do and perform any other act and will execute, acknowledge, deliver, file, register and record (and will refile, re-register or rerecord whenever required) any and all further instruments (including, without limitation, financing and continuation statements or similar notices thereof) required by law or reasonably requested by the Lessor or the Security Trustee for

the purpose of protecting the Lessor's title to, or the Security Trustee's security interest in, the Equipment and this Lease or for the purpose of carrying out the intention of this Lease, and in connection with any such action, will upon the written request of the Lessor or the Security Trustee deliver to the Lessor and the Security Trustee proof of such filings and an opinion of the Lessee's counsel that such action has been properly taken. The Lessee will pay all costs, charges and expenses incident to any such filing, refiling, recording, and re-recording or depositing and redepositing of any such instruments or incident to the taking of such action.

10.2 Taxes. (a) General Indemnity. Whether or not any of the transactions contemplated hereby are consummated, the Lessee agrees to pay and to indemnify and hold the Lessor, the Equipment (together with (i) all accessories, equipment, parts and appurtenances appertaining or attached to any of the Equipment, whether now owned or hereafter acquired, except such thereof as remain the property of the Lessee hereunder, (ii) all substitutions, renewals or replacements of and additions, improvements, accessions and accumulations to any and all of said Equipment, except such thereof as remain the property of the Lessee hereunder, and (iii) all the rights, titles, interests, claims and demands of the Lessor in, to and under this Lease (including all extensions of the term hereof), rents, Casualty Value, insurance proceeds, condemnation awards and other payments now or hereafter payable or receivable by the Lessor, income and profits arising from this Lease or the Equipment), the Trustor, the Interim Lender, the Lenders and the Security Trustee (hereinafter referred to individually as a "Tax Indemnatee") harmless from and against all license and registration fees and all taxes now or hereafter imposed by law, including, without limitation, income, gross receipts, leasing, leasing use, franchise, sales, use, personal property (tangible or intangible), levies, imposts, duties, charges or withholdings of any nature whatsoever together with any penalties, fines or interest thereon (collectively, "taxes, fees or other charges") imposed against any Tax Indemnatee, the Lessee, any Item of Equipment or any part thereof by any Federal, State or local government or taxing authority, or by any foreign government or any subdivision or taxing authority thereof, (i) upon or with respect to an Item of Equipment or any part thereof, (ii) upon or with respect to the reconstruction, rehabilitation, construction, purchase, loan financing, ownership, delivery, installation, lease, possession, use, operation, return, sale or other disposition of an Item of Equipment, (iii) upon or with respect to payments of rent and receipts arising therefrom, and (iv) upon or with respect to the Operative Agreements.

The provisions of this Section 10.2(a) shall not apply

to the following taxes payable by the Trustor (as distinguished from the Lessor): (A) Federal income taxes imposed by Sections 11 or 1201(a) of the Internal Revenue Code of 1954, as amended (the "Code"), or (B) the aggregate of the following taxes up to the amount of any such taxes which would be payable in the state or locality in which the Trustor has its principal place of business without apportionment to any other state: (1) all state or local income taxes or franchise taxes measured solely by net income based on such receipts or (2) gross receipts taxes [other than gross receipts taxes in the nature of sales, use or rental taxes], or (3) value added taxes in lieu of net income taxes; provided, however, that the Lessee agrees, anything to the contrary above notwithstanding, to pay any such taxes, fees or other charges on or measured by any sums payable under any of the Operative Agreements or the net income therefrom which the Tax Indemnatee can reasonably establish are in substitution for or relieve the Lessee from any tax which the Lessee would otherwise be obligated to pay under the terms of this Section 10.2. In the event that any taxes, fees or other charges accrue or become payable or are levied or assessed during the continuance of this Lease, or are levied or assessed after the expiration of this Lease but are attributable to the period of time during which this Lease is in existence, the Lessee's obligation pursuant to this Section 10.2 to pay or reimburse such taxes, fees or other charges shall continue until all such taxes, fees or other charges are paid or reimbursed by the Lessee. To the extent that any taxes hereinabove referred to in this Section 10.2 are included in the Total Cost of Equipment for any Item, the Lessee shall not be obligated under this Section 10.2 for indemnification with respect to such taxes.

(b) Further Indemnity. If as a result of any act or omission of the Lessee in the performance of its obligations under Section 10.2(a) or Section 10.2(c) hereof a penalty is imposed upon any Tax Indemnatee, the Lessee shall also indemnify such Tax Indemnatee for all taxes required to be paid by such Tax Indemnatee with respect to such penalty under the laws of any Federal, state, local or other taxing authority in the United States of America and with respect to any payment pursuant to this subsection (b), after taking into account the amount of any net tax benefit to such Tax Indemnatee occasioned by the payment of such penalty.

(c) Tax Returns. In case any return, statement or report is required to be made with respect to any taxes, fees or other charges imposed on or borne or indemnified by the Lessee under this Section 10.2, the Lessee shall:

- (i) to the extent required or permitted by law, make and file in its own name such return, statement or report in such manner as will

show the ownership of the Items of Equipment in the Lessor; and

- (ii) in the case of any other such return, statement or report required to be made in the name of a Tax Indemnitee, use its best efforts to advise the Lessor and such Tax Indemnitee of such fact and provide all necessary information sufficient to permit such return, statement or report to be properly made with respect thereto.

The Lessee shall hold each Tax Indemnitee harmless from and against any liabilities, obligations, losses, damages, penalties, claims, actions, suits and costs arising out of any insufficiency or inaccuracy in any such return, statement, report or information if any such insufficiency or inaccuracy is attributable to the Lessee.

(d) Time and Manner of Indemnity Payments; Contest Rights.

Any payment or indemnity payable by the Lessee pursuant to this Section 10.2 shall be payable at such time as the taxes, fees or other charges giving rise to such payment or indemnity become payable, or, in the case of any tax, fee or other charge collected by withholding, at the time such withholding is required. In the case of any taxes, fees or other charges required or permitted to be paid directly by the Lessee, the Lessee shall make payment thereof to the appropriate taxing or other governmental jurisdiction. In the case of any taxes, fees or other charges paid directly by a Tax Indemnitee and indemnity payments for which the Tax Indemnitee is to be reimbursed under this Section 10.2, the Lessee shall make payment to the Tax Indemnitee entitled thereto promptly upon receipt of notice from such Tax Indemnitee setting forth the basis for the amount of such reimbursement. If any tax paid by withholding or on an estimated basis by a Tax Indemnitee is later increased or decreased on a final return, any payment previously made on account of such tax under this Section 10.2 shall be appropriately adjusted.

Notwithstanding the foregoing, the Lessee shall be under no obligation to pay any tax, fee or other charge so long as such tax, fee or other charge remains unpaid and the Lessee is contesting in its own name and in good faith and by appropriate legal or administrative proceedings such tax, fee or other charge, or the Trustor is required to contest such imposition as provided herein, and the nonpayment thereof, does not, in the reasonable opinion of the Trustor, adversely affect the title, property or rights of any Tax Indemnitee. The Lessee agrees to give the Trustor notice of such contest brought in the Lessee's name within 30 days after institution thereof.

The Trustor agrees: (i) upon receipt of actual knowledge thereof, to promptly notify the Lessee of any claim with respect to which any payment or indemnity by the Lessee maybe required pursuant to this Section 10.2, (ii) not to make payment with respect to such claim for at least 30 days (or a shorter period of time where the failure to pay such claim would, in the reasonable judgment of the Trustor, impair the right, title and interest of the Lessor to the Equipment) after the giving of such notice, and (iii) to provide such information as may be reasonably requested by the Lessee in furtherance of any contest. In the event the Lessee (i) is prohibited by law from contesting a tax, fee or other charge in its own name or (ii) is unable to contest a tax, fee or other charge in its own name due to lack of necessary information, provided that the Lessee has made a reasonable attempt to obtain such necessary information and is unable to attain such information, the Trustor shall, upon request and at the expense of the Lessee, take all legal and other appropriate action reasonably requested by the Lessee to contest such imposition in the case of a tax, fee or other charge in excess of \$25,000. The Trustor shall not be obligated to take any such legal or other appropriate action unless the Lessee shall first have indemnified the Trustor for all liabilities and expenses which may be entailed therein. Further, the Lessee shall indemnify and hold the Trustor harmless from and against any and all claims, costs, expenses, damages, losses and liabilities incurred in connection therewith as a result of, or incident to, any action taken by the Trustor or the Lessee under this Section 10.2. The Lessee shall be entitled to any refunds received by the Trustor or the Lessee in respect of any imposition paid by the Lessee, provided no Event of Default (or other event which after notice or lapse of time or both would become an Event of Default) shall have occurred and be continuing.

(e) Federal Tax Attributes, Indemnification Agreement.

It is the intent of the Trustor and the Lessee that this Lease will be recognized as a lease for all Federal, state, and local income tax purposes, that this Lease does not convey to the Lessee any right, title or interest in or to the Items of Equipment except as lessee and that for Federal income tax purposes the Trustor will be treated as the owner of the Items of Equipment and entitled to such deductions, credits and attributes as are provided by the Code with respect to such ownership. To that end, the Lessee intends to enter into an Income Tax Indemnification Agreement dated as of December 15, 1978 (the "Income Tax Indemnification Agreement") between the Trustor and the Lessee (which Income Tax Indemnification Agreement is hereby incorporated herein and made a part hereof) pursuant to which the Lessee will agree to indemnify the Trustor against loss of the benefit of certain such tax attributes, as more fully set forth in such Income Tax Indemnification

Agreement, in accordance with the terms and conditions thereof.

For purposes of this Section 10.2, the term "Trustor" shall include any member of an affiliated group, of which the Beneficiary (as defined in the Trust Agreement) is, or may become, a member if consolidated, joint or combined returns are filed for such affiliated group for Federal, state or local income tax purposes.

The Lessee hereby agrees that all payments made by the Lessee pursuant to this Section 10.2 or the Income Tax Indemnification Agreement shall be deemed to be payments of additional rent for the Equipment.

SECTION 11 INSURANCE; PAYMENT FOR CASUALTY OCCURRENCE.

11.1 Insurance. The Lessee will at all times while this Lease is in effect, at its own expense, cause to be carried and maintained property insurance in respect of the Equipment at the time subject hereto, and public liability insurance, in amounts and against risks customarily insured against by railroad companies in respect of similar equipment and in any event comparable to those risks insured against by the Lessee in respect of similar equipment owned by it. If and to the extent the Lessee self-insures with respect to any such insurance coverage within the limitations of this Section 11.1, the Lessee shall set aside reserves in connection therewith in accordance with generally accepted accounting principles. The Lessee currently maintains the insurance coverage described in Schedule D attached hereto. The policies of insurance required under this Section 11.1 shall be valid and enforceable policies issued by insurers of recognized responsibility comparable to the Lessee's present insurers. The benefits of all property insurance will be adjusted with the Lessee, the Lessor and the Security Trustee, as their interests may appear, and the Lessee will deliver certificates of insurance evidencing any property insurance effected or in force in accordance with the provisions of this paragraph. With respect to all public liability insurance, the Lessee shall cause each policy to cover the respective interests of the Lessor and the Security Trustee for claims arising from the ownership, operation, maintenance or use of the Equipment and to name the Lessor and the Security Trustee as additional insureds.

On or before the first Closing Date under the Rehabilitation Agreement, and thereafter not less than 10 days prior to the expiration dates of any expiring policies theretofore furnished under this Section 11.1, originals of the policies and satisfactory evidence of the payment of premiums thereon shall be delivered by the Lessee to the Lessor and the Security Trustee except that the Lessor and the Security Trustee

may accept certificates of insurance from a recognized insurance broker of national standing, which certificates shall be satisfactory to the Lessor and the Security Trustee. Such policies may be blanket policies covering other equipment not covered by this Lease, provided that the aforementioned certificate shall indicate that Equipment leased hereunder is included therein and covered thereby to the full extent of amounts herein required. All such policies shall contain an agreement by the insurers that such policies shall not be cancelled without at least 10 days' prior written notice (or such other maximum prior written notice period less than 10 days as is common insurance industry practice at the time) to the Lessor and the Security Trustee and that the insurer will give notice to the Lessor and the Security Trustee in the event of nonpayment of premium by the Lessee when due.

Any net insurance proceeds (excluding public liability insurance) resulting from insurance carried by the Lessee or condemnation payments actually received by the Lessor in respect of the Equipment suffering a Casualty Occurrence shall be deducted from the amounts payable by the Lessee to the Lessor in respect of Casualty Occurrences pursuant to this Section 11. If the Lessor shall receive any such net insurance proceeds or condemnation payments after the Lessee shall have made a Casualty Value payment pursuant to this Section 11 without deduction for such net insurance proceeds or such condemnation payments, the Lessor shall pay such net insurance proceeds or condemnation payments to the Lessee; provided, however, that if an Event of Default or other event (hereinafter called a "Default") which with notice, demand and/or lapse of time, would constitute such an Event of Default shall have occurred and be continuing, such insurance proceeds may be retained by the Lessor and applied to discharge the liabilities of the Lessee under Section 11.3 and the balance of such net insurance proceeds or condemnation payments shall remain the property of the Lessor. All net insurance proceeds (excluding public liability insurance) received by the Lessor or the Lessee with respect to an Item not suffering a Casualty Occurrence shall be applied in payment of the cost of repairing the damage to such Item; and any balance remaining after the completion of such repairs shall be paid to the Lessee unless an Event of Default or Default shall have occurred and be continuing, in which case the amount otherwise payable to the Lessee may be retained by the Lessor and applied to discharge the liabilities of the Lessee under Section 11.3.

11.2 Casualty Occurrence and Duty of Lessee to Notify Lessor. In the event that any Item of Equipment shall be or become lost, stolen, destroyed, or, in the opinion of the Lessee, irreparably damaged or damaged beyond economical repair during the term of this Lease, including any renewal term hereunder, or thereafter while the Item of Equipment is in the possession

of the Lessee pursuant to Section 13 or 15 hereof, or shall be requisitioned or taken over by any governmental authority under the power of eminent domain or otherwise during the term of this Lease, including any renewal terms hereunder (any such occurrence, except for any requisition which by its terms is for an indefinite period or is for a stated period which does not exceed the term of this Lease, being herein called a "Casualty Occurrence"), the Lessee shall promptly and fully (after it has knowledge of such Casualty Occurrence) inform the Lessor and the Security Trustee in regard thereto and shall pay the Casualty Value (as defined in Section 11.7 hereof) of such Item in accordance with the terms hereof.

11.3 Payment for Casualty Occurrence. In the event of a Casualty Occurrence with respect to any Item of Equipment of which the Lessee has knowledge prior to the Term Lease Commencement Date, the Lessee, on such Term Lease Commencement Date, shall pay to the Lessor a sum equal to the Casualty Value of such Item of Equipment as of the date of such payment, plus the unpaid installment of Interim Rental due on such date. In the event of a Casualty Occurrence with respect to any Item of Equipment of which the Lessee has knowledge on or after the Term Lease Commencement Date, the Lessee, on the next succeeding Fixed Rental payment date, shall pay to the Lessor a sum equal to the Casualty Value of such Item of Equipment as of the date of such payment. The installment of Fixed Rental in respect of the Item or Items for which the Casualty Value is then being paid which would be otherwise due on such date of payment of the Casualty Value need not be paid if such Casualty Value is so paid.

11.4 Rent Termination. Upon (and not until) payment of the Casualty Value in respect of any Item or Items of Equipment, the obligation to pay rent for such Item or Items of Equipment accruing on and subsequent to the Casualty Value payment date shall terminate, but the Lessee shall continue to pay rent for all other Items of Equipment.

11.5 Disposition of Equipment. Provided no Default or Event of Default shall have occurred and be continuing or if, notwithstanding either such event, the Lessor shall have so directed, the Lessee shall, as agent for the Lessor, dispose of such Item or Items of Equipment having suffered a Casualty Occurrence as soon as it is able to do so in a commercially reasonable manner in accordance with railroad industry practice in its then existing condition and location without representation or warranty, expressed or implied. As to each separate Item of Equipment so disposed of and for which all rent and Casualty Value have been paid pursuant hereto, the Lessee may, provided no Default or Event of Default shall have occurred and be continuing, retain the sum of (i) all amounts

arising from such disposition (except for amounts arising from such disposition which are greater than the Casualty Value of such Item, which excess amounts shall be remitted to the Lessor by the Lessee), plus (ii) any insurance proceeds and damages received by the Lessee. Neither the Lessee nor any "affiliate" (as that term is hereinafter defined) of the Lessee shall be permitted to purchase any Item of Equipment with respect to which this Lease has been terminated pursuant to Section 11.3 unless such Item cannot be made economically serviceable and as a consequence thereof is to be scrapped or dismantled for the purpose of salvaging useable parts, in which event the Lessee may purchase any such parts. Any sale or other disposition pursuant to this Section 11.5 must be effective to fully divest the Lessor of all of the Lessor's right, title and interest in and to, and all obligations of the Lessor with respect to, such Item or Items. It is understood and agreed that the Lessor shall not be liable to the Lessee for any costs or expenses incurred by the Lessee in connection with the sale or other disposition of any Item of Equipment.

For purposes of this Section 11.5, the term "affiliate" shall mean: (a) any subsidiary of the Lessee or any corporation or other person reported in the published financial statements of the Lessee on an equity in net assets basis in accordance with generally accepted accounting principles, or (b) any "related person" within the meaning of Section 318 of the Code.

11.6 Casualty Value. The Casualty Value of each Item of Equipment shall be an amount determined as of the date the Casualty Value is required to be paid as provided in this Section 11 (and not the date of the Casualty Occurrence) equal to that percentage of the Total Cost of such Item (as set forth in the Schedule describing such Item of Equipment) set forth in the Schedule of Casualty Value attached hereto as Schedule C, opposite such date of payment.

11.7 Risk of Loss. The Lessee shall bear the risk of loss and, except as hereinabove in this Section 11 provided, shall not be released from its obligations hereunder in the event of any Casualty Occurrence to any Item of Equipment from and after the date hereof and continuing throughout the term hereof and during any storage period provided in Sections 13 and 15 hereof until: (a) payment of the Casualty Value and any rental due prior to the date of payment of such Casualty Value in respect of such Item of Equipment has been made, and (b) the title to such Item or the salvage thereof and all risk of loss and liabilities incident to ownership have been transferred to the purchaser of such Item or the salvage thereof.

11.8 Eminent Domain. In the event that during the term of this Lease the use of any Item of Equipment is requisitioned

or taken by any governmental authority under the power of eminent domain or otherwise for an indefinite period or for a stated period which does not exceed the original term of this Lease in respect of such Item, the Lessee's obligation to pay rent shall continue for the duration of the requisitioning or taking of such Item. The Lessee shall be entitled to receive and retain for its own account all sums payable for any such period by such governmental authority as compensation for requisition or taking of possession of such Item to an amount equal to the rent paid or payable hereunder for such period, and the balance, if any, shall be payable to and retained by the Lessor as its sole property.

SECTION 12 ANNUAL REPORTS.

12.1 Duty of Lessee to Furnish. On or before June 30 in each year, commencing with the year 1980, the Lessee will furnish to the Lessor and its assigns an accurate statement, as of the preceding December 31 (a) showing the amount, description and numbers of the Items of Equipment then leased hereunder, the amount, description and numbers of all Items of Equipment that may have suffered a Casualty Occurrence during the preceding 12 months (or since the date of this Lease, in the case of the first such statement), and such other information regarding the condition or repair of the Equipment as the Lessor may reasonably request, and (b) stating that, in the case of all Equipment repainted during the period covered by such statement, the markings required by Section 4.2 hereof shall have been preserved or replaced.

12.2 Lessor's Inspection Rights. The Lessor and any assignee of the Lessor pursuant to Section 16 hereof each shall have the right, at its sole cost, liability and expense, by its authorized representative, to inspect the Equipment and the Lessee's records with respect thereto, at such times as shall be reasonably necessary to confirm to the Lessor or, as the case may be, such assignee, the existence and proper maintenance thereof during the continuance of this Lease.

SECTION 13 RETURN OF EQUIPMENT UPON EXPIRATION OF TERM.

Upon the expiration of the term of this Lease with respect to any Item of Equipment, the Lessee will, at its own cost and expense, deliver possession of such Item of Equipment to the Lessor upon such storage tracks of the Lessee as the Lessor may reasonably designate, or in the absence of such designation, as the Lessee may select, and permit the Lessor to store such Item of Equipment on such tracks for a period not exceeding 180 days from the date the last Item of Equipment is delivered to storage tracks pursuant to this Section 13 and transport the same at any time within such 180 day period to

any reasonable place on the lines of railroad operated by the Lessee or to any connecting carrier for shipment, all as directed by the Lessor upon not less than 5 days' written notice to the Lessee; provided, that the obligations of the Lessee to so transport shall be limited to only one such movement in respect of any such Item of Equipment. The Lessor will use its best efforts to completely remove the Equipment from storage as soon as possible within the 180 day period. The Lessee covenants that, at the time any Item of Equipment is returned to the Lessor in the manner above provided, it will then be in compliance with all applicable United States Department of Transportation and Interstate Commerce Commission requirements and specifications, if any, and, if and to the extent permitted thereby, all standards recommended by the A.A.R. reasonably interpreted as being applicable to railroad equipment of the character of the Equipment. All movement and storage of each such Item is to be at the risk and expense of the Lessee. During such storage period the Lessee will permit the Lessor or any person designated by it, including the authorized representative or representatives of any prospective purchaser of any such Item, to inspect the same; provided, however, that the Lessee shall not be liable, except in the case of negligence of the Lessee or of its employees or agents, for any injury to, or the death of, any person exercising, either on behalf of the Lessor or any prospective purchaser, the rights of inspection granted under this sentence. The assembling, delivery, storage and transporting of the Equipment as hereinbefore provided are of the essence of this Lease, and upon application to any court having jurisdiction in the premises the Lessor shall be entitled to a decree against the Lessee requiring specific performance of the covenants of the Lessee to so assemble, deliver, store and transport the Equipment.

SECTION 14 DEFAULT.

14.1 Events of Default. Any of the following events shall constitute an Event of Default ("Event of Default") hereunder:

- (a) Default shall be made in the payment of any part of the rental or other sums provided in Section 2 or 11 hereof and such default shall continue for five business days; or
- (b) The Lessee shall make or permit any unauthorized assignment or transfer of this Lease, or the unauthorized possession of any Item of Equipment under this Lease; or
- (c) Default shall be made in the observance or performance of any other of the covenants, conditions

and agreements on the part of the Lessee contained herein or in any other of the Operative Agreements and such default shall continue for 30 days after written notice from the Lessor to the Lessee, specifying the default and demanding the same to be remedied; or

- (d) Any representation or warranty made by the Lessee herein or in any of the other Operative Agreements or in any statement or certificate furnished to the Lessor or its assigns pursuant to or in connection with this Lease or any of the other Operative Agreements is untrue in any material respect as of the date of issuance or making thereof; or
- (e) Any obligation of the Lessee or any Subsidiary (as hereinafter defined) for borrowed money or payment of rent (other than such obligation of any such Subsidiary to the Lessee or any other Subsidiary) becomes or is declared to be due and payable prior to its express maturity by reason of default by the Lessee or any such subsidiary in the performance or observation of any obligation or condition; or
- (f) A petition for reorganization under Section 77 of the Bankruptcy Act, as now in effect or as said Section 77 may hereafter be amended or replaced, shall be filed by or against the Lessee and, unless such petition shall have been dismissed, nullified, stayed or otherwise rendered ineffective (but then only so long as such stay shall continue in force or such ineffectiveness shall continue), all the obligations of the Lessee under this Lease shall not have been duly assumed for the then unexpired term hereof in writing, pursuant to a court order or decree, by a trustee or trustees appointed in such proceedings in such manner that such obligations shall have the same status and priority as obligations incurred by such trustee or trustees which are entitled to the first priority for costs and expenses of administration, within 30 days after such appointment, if any, or 60 days after such petition shall have been filed, whichever shall be earlier; or
- (g) Any other proceedings shall be commenced by or against the Lessee or any proceedings shall be commenced by or against any Subsidiary for any relief under any bankruptcy or insolvency law, or any law relating to the relief of debtors, readjustment

of indebtedness, reorganization, arrangement, composition or extension, and, if such proceedings have been commenced against the Lessee or any Subsidiary, such proceedings shall not have been dismissed, nullified, stayed or otherwise rendered ineffective (but then only so long as such stay shall continue in force or such ineffectiveness shall continue) within 60 days after such proceedings shall have commenced, or the Lessee or any Subsidiary shall become insolvent or bankrupt or shall make a general assignment for the benefit of creditors or shall admit in writing its inability to pay its debts generally as they become due, or a trustee or receiver is appointed for the Lessee or any Subsidiary or for the major part of the property of any thereof and is not discharged within 60 days after such appointment.

For purposes of this Section 14.1 the term "Subsidiary" shall mean any corporation of which more than 50% (by number of votes) of the Voting Stock shall be owned by the Lessee and/or one or more corporations which are themselves Subsidiaries of the Lessee within the meaning of this definition. "Voting Stock" shall mean securities of any class or classes, the holders of which are ordinarily, in the absence of contingencies, entitled to elect a majority of the corporate directors (or persons performing similar functions).

14.2 Remedies. If any Event of Default has occurred and is continuing, the Lessor, at its option, may:

- (a) Proceed by appropriate court action or actions, either at law or in equity, to enforce performance by the Lessee of the applicable covenants of this Lease or to recover damages for the breach thereof, including reasonable attorneys' fees; or
- (b) By notice in writing to the Lessee, terminate this Lease, whereupon all right of the Lessee to the use of the Equipment shall absolutely cease and terminate as though this Lease had never been made, but the Lessee shall remain liable as hereinafter provided; and thereupon, the Lessor may by its agents enter upon the premises of the Lessee or other premises where any of the Equipment may be located and take possession of all or any of such Equipment and thenceforth hold, possess and enjoy the same free from any right of the Lessee, or its successors or assigns, to use the Equipment for any purpose whatever, but the Lessor, shall nevertheless, have a right to recover from the Lessee any and all

amounts which may have accrued to the date of such termination (computing the rental for any number of days less than a full rental period by multiplying the rental for such full rental period by a fraction of which the numerator is such accrued number of days in such full rental period and the denominator is the total number of days in such full rental period) and also to recover forthwith from the Lessee (i) as damages for loss of the bargain and not as a penalty, whichever of the following amounts the Lessor, in its sole discretion, shall specify: (x) a sum, with respect to each Item of Equipment, which represents the excess of the present worth, at the time of such termination, of all rentals for such Item which would otherwise have accrued hereunder from the date of such termination to the end of the term of this Lease over the then present worth of the then Fair Rental Value of such Item for such period, such present worth to be computed by discounting from the end of such term to the date of such termination rentals which the Lessor reasonably estimates to be obtainable for the use of such Item during such period, such present worth to be computed in each case on a basis of a 8% per annum discount, compounded quarterly from the respective dates upon which rentals would have been payable hereunder had this Lease not been terminated, or (y) an amount equal to the excess, if any, of the Casualty Value of such Item of Equipment as of the rent payment date on or immediately preceding the date of termination over the amount the Lessor reasonably estimates to be the Fair Market Value thereof at such time; and (ii) any damages and expenses, including reasonable attorneys' fees, which the Lessor shall have sustained by reason of the breach of any covenant or covenants of this Lease other than for the payment of rental.

The Lessor agrees, however, that if (i) no Event of Default or Default under Section 14.1(f) or 14.1(g) has occurred and is continuing and (ii) all of the other terms and conditions of this Lease are met, the Lessor will only seek to exercise the remedies provided for in Section 14.2(a) of this Lease to enforce performance of, and recover damages for default in the payment of amounts due under, Section 10.2(e) if amounts due thereunder become due as a result of a settlement of claims pursuant to the proviso to Section 3(d) of the Tax Indemnification Agreement where the Lessee in good faith does not agree to the reasonableness of such settlement.

For purposes of this Section 14.2, Fair Market Value

and Fair Rental Value for any Item of Equipment shall be determined in the manner contemplated by the appraisal arrangements specified in Section 18 hereof for Fair Rental Value; provided, however, that any sale in a commercially reasonable manner of any Item of Equipment prior to any such determination shall conclusively establish the Fair Market Value of such Item and any rental in a commercially reasonable manner of any Item of Equipment prior to any such determination shall conclusively establish the Fair Rental Value of such Item.

14.3 Cumulative Remedies. The remedies in this Lease provided in favor of the Lessor shall not be deemed exclusive, but shall be cumulative and shall be in addition to all other remedies in its favor existing at law or in equity. The Lessee hereby waives any mandatory requirements of law, now or hereafter in effect, which might limit or modify any of the remedies herein provided, to the extent that such waiver is permitted by law. The Lessee hereby waives any and all existing or future claims of any right to assert any offset against the rent payments due hereunder, and agrees to make the rent payments regardless of any offset or claim which may be asserted by the Lessee or on its behalf in connection with the lease of the Equipment.

14.4 Lessor's Failure to Exercise Rights. The failure of the Lessor to exercise the rights granted it hereunder upon any occurrence of any of the contingencies set forth herein shall not constitute a waiver of any such right upon the continuation or recurrence of any such contingencies or similar contingencies.

SECTION 15 RETURN OF EQUIPMENT UPON DEFAULT.

15.1 Lessee's Duty to Return. If the Lessor or any assignee of the Lessor pursuant to Section 16 hereof shall terminate this Lease pursuant to Section 14 hereof, the Lessee shall forthwith deliver possession of the Equipment to the Lessor. For the purpose of delivering possession of any Item of Equipment to the Lessor as above required, the Lessee shall at its own cost, expense and risk:

- (a) Forthwith place such Equipment in such reasonable storage place on the Lessee's lines of railroad as the Lessor may designate or, in the absence of such designation, as the Lessee may select;
- (b) Permit the Lessor to store such Equipment in such reasonable storage place on the Lessee's lines of railroad without charge for insurance, rent or storage until such Equipment has been sold, leased or otherwise disposed of by the Lessor; and

- (c) Transport the Equipment to any place on the lines of railroad operated by the Lessee or to any connecting carrier for shipment, all as the Lessor may direct in writing.

15.2 Specific Performance. The assembling, delivery, storage and transporting of the Equipment as hereinabove provided are of the essence of this Lease, and upon application to any court of equity having jurisdiction in the premises, the Lessor shall be entitled to a decree against the Lessee requiring specific performance of the covenants of the Lessee so to assemble, deliver, store and transport the Equipment.

15.3 Lessor Appointed Lessee's Agent. Without in any way limiting the obligations of the Lessee under the foregoing provisions of this Section 15, the Lessee hereby irrevocably appoints the Lessor as the agent and attorney of the Lessee, with full power and authority, at any time while the Lessee is obligated to deliver possession of any Items of Equipment to the Lessor, to demand and take possession of such Item in the name and on behalf of the Lessee from whomsoever shall be at the time in possession of such Item.

SECTION 16 ASSIGNMENTS BY LESSOR.

The Lessee and the Lessor hereby confirm that, the Lessor intends to execute and deliver to the Security Trustee the Security Agreement which will assign and grant a security interest to the Security Trustee in, to and under this Lease and certain of the rentals and other amounts payable hereunder, all as to be more explicitly set forth in the Security Agreement. The Lessor hereby agrees that promptly after the execution and delivery of the Security Agreement, the Lessor will deliver an executed copy of the Security Agreement to the Lessee. The Lessee hereby agrees that the sums payable by the Lessee hereunder which will be assigned to the Security Trustee under the Security Agreement shall be paid to or upon the written order of the Security Trustee; provided that until receipt of any such written order the Lessee may make all such payments in accordance with the provisions of Section 2.4 hereof. Without limiting the foregoing, the Lessee further acknowledges and agrees that, so long as any indebtedness secured by the Security Agreement remains unpaid, (a) the rights of the Security Trustee in and to the sums payable under this Lease which are assigned to the Security Trustee under the Security Agreement shall not be subject to any abatement whatsoever, and shall not be subject to any defense, setoff, counterclaim or recoupment whatsoever whether by reason of failure of or defect in the Lessor's title, or any interruption from whatsoever cause in the use, operation or possession of the Equipment or any part thereof, or any damage to or loss or destruction of the Equipment or any part thereof,

or by reason of any other indebtedness or liability, howsoever and whenever arising, of the Lessor to the Lessee or to any other person, firm or corporation or to any governmental authority or for any cause whatsoever, it being the intent hereof that, the Lessee shall be unconditionally and absolutely obligated to pay the Security Trustee all of the rents and other amounts payable hereunder which are the subject matter of the assignment, and (b) except as otherwise provided in the Security Agreement, the Security Trustee shall, if an Event of Default or a Default shall have occurred and be continuing, have the sole right to exercise all rights, privileges and remedies (either in its own name or in the name of the Lessor for the use and benefit of the Security Trustee) which by the terms of this Lease are permitted or provided to be exercised by the Lessor.

It is understood and agreed that the right, title and interest of the Security Trustee in, to and under this Lease and the rents and other sums due and to become due hereunder shall by the express terms granting and conveying the same be subject to the interest of the Lessee in and to the Equipment.

SECTION 17 ASSIGNMENTS BY LESSEE; USE AND POSSESSION.

17.1 Lessee's Rights to the Equipment. So long as the Lessee shall not be in default under this Lease, the Lessee shall be entitled to the possession and use of the Equipment in accordance with the terms of this Lease, but, without the prior written consent of the Lessor and the Security Trustee, if any, the Lessee shall not assign, transfer or encumber its leasehold interest under this Lease in any of the Equipment. The Lessee shall not, without the prior written consent of the Lessor and the Security Trustee, part with the possession or control of, or suffer or allow to pass out of its possession or control, any of the Equipment, except to the extent permitted by the provisions of Section 17.2 hereof.

17.2 Use and Possession on Lines Other Than Lessee's Own. So long as the Lessee shall not be in default under this Lease, the Lessee shall be entitled to the possession of the Equipment and to the use thereof upon the lines of railroad owned or operated by it (either alone or jointly) or by any corporation, a majority of whose voting stock (i.e., having ordinary voting power for the election of a majority of its Board of Directors) is owned directly or indirectly by the Lessee, or upon lines of railroad over which the Lessee or such corporation has trackage or other operating rights or over which equipment of the Lessee is regularly operated pursuant to contract and also to permit the use of any Item of Equipment upon connecting and other carriers in the usual interchange of traffic, if customary at the time, or pursuant to run-through

agreements, but only upon and subject to all the terms and conditions of this Lease. The Lessee shall also have the right, upon receipt of the prior written consent of the Lessor and the Security Trustee (which consent will not be unreasonably withheld), to sublease the Equipment. In no event shall any assignment or sublease entered into by the Lessee hereunder relieve the Lessee of any liability or obligation hereunder which shall be and remain those of a principal and not a surety. Anything contained in this Section 17 to the contrary notwithstanding, the Lessee shall at no time throughout the term of this Lease assign or permit the assignment of any Item of Equipment to, or permit the use by any sublessee of any Item of Equipment in, service outside the continental United States and Canada. The Lessee will, however, use its best efforts consistent with normal business practice to prevent the use of the Equipment outside of the United States.

17.3 Merger, Consolidation or Acquisition of Lessee. Nothing in this Section 17 shall be deemed to restrict the right of the Lessee to assign or transfer its leasehold interest under this Lease in the Equipment or possession of the Equipment to any corporation (which shall have duly assumed in writing all of the obligations hereunder of the Lessee) into or with which the Lessee shall have become merged or consolidated or which shall have acquired or leased all or substantially all of the lines of railroad of the Lessee, provided that such assignees, successors or transferees will not, upon the effectiveness of such merger or consolidation or acquisition of properties, be in default under any provision of this Lease and that such merger or consolidation or acquisition of properties shall not alter in any way the Lessee's obligations to the Lessor hereunder which shall be and remain those of a principal and not a surety. The Lessee agrees to give the Lessor and the Security Trustee written notice of the consummation of any such merger, consolidation or acquisition.

SECTION 18 RENEWAL AND PURCHASE.

18.1 Initial Election. Provided that this Lease has not been earlier terminated and no Event of Default or Default shall have occurred and be continuing hereunder, the Lessee may by written notice delivered to the Lessor not less than (a) 270 days prior to the end of the original term hereof in respect of all Items of Equipment then leased hereunder, notify the Lessor that the Lessee irrevocable elects either that it shall extend the term of this Lease in respect of such Items or offer to purchase the same, all on the basis hereinafter provided, (b) 270 days prior to the end of the first extended term, if any, of this Lease in respect of all Items of Equipment then leased hereunder, notify the Lessor that the Lessee irrevocably elects that it shall either extend the term of this

Lease in respect of such Items or offer to purchase the same, all on the basis hereinafter provided, and (c) 180 days prior to the end of the second extended term, if any, of this Lease in respect of all Items of Equipment then leased hereunder, notify the Lessor that the Lessee elects to offer to purchase the same on the basis hereinafter provided.

18.2 Renewal. Any extension of the term of this Lease pursuant to clauses (a) or (b) of Section 18.1 hereof shall be in respect of all, but not less than all, of the Items of Equipment for which the lease term is then expiring, shall be for a one-year period commencing on the scheduled expiration of the original term or the first extended term of this Lease, and shall be subject to the terms and conditions herein contained for the original term of this Lease; provided that the Fixed Rental payable for and during any such renewal term shall be an amount equal to the Fair Rental Value (as hereinafter defined) of such Items of Equipment.

The Fair Rental Value of an Item of Equipment shall be determined on the basis of, and shall be equal in amount to, the value which would be obtained in an arm's-length transaction between an informed and willing lessee (other than a lessee currently in possession) and an informed and willing lessor under no compulsion to lease, which value shall not reflect the value of any additions or improvements which can be readily removed from an Item of Equipment without material damage to such Item. If 90 days after receipt by the Lessor of the notice of the Lessee's election to exercise the renewal option, the Lessor and the Lessee are unable to agree upon a determination of the Fair Rental Value of the Item or Items in question, such value shall be determined in accordance with the foregoing definition by a qualified independent Appraiser. The term "Appraiser" shall mean two independent appraisers, one chosen by the Lessor and one chosen by the Lessee, or, if such appraisers cannot agree on the amount of such value within 60 days prior to the date of commencement of the applicable renewal term, then the term "Appraiser" shall mean an appraiser chosen by the American Arbitration Association. The Appraiser shall be instructed to make such determination within a period of 30 days following appointment, and shall promptly communicate such determination in writing to the Lessor and the Lessee. Upon receipt of notice of such determination, the Lessor and the Lessee shall have the option to enter or not enter into such renewal; however, in the event they elect to enter into the renewal, the appraiser's determination of such Fair Rental Value shall be conclusively binding upon both the Lessor and the Lessee. The expenses and fees of the Appraiser shall be borne by the Lessee.

18.3 Offer to Purchase. Any offer to purchase pursuant to clauses (a), (b) or (c) of Section 18.1 hereof shall be with

respect to all, but not less than all, of the Items of Equipment for which the lease term is then expiring. If the Lessee notifies the Lessor that it intends to offer to purchase the Items pursuant to clauses (a), (b) or (c) of Section 18.1 hereof, such notice shall include the amount which it is willing to pay for such Items and the terms upon which it is willing to make such purchase.

The Lessor agrees that it will accept or reject the Lessee's offer to purchase or make a counter-offer for such purchase within 30 days of the receipt of the Lessee's offer. If the Lessor makes a counter-offer, the Lessee has 30 days within which to accept or reject such counter-offer. If the Lessor rejects the Lessee's offer to purchase or the Lessee rejects the Lessor's counter-offer, the Lessee shall have any right contained herein to elect to extend the term of this Lease with respect to such Items of Equipment if the Lessee notifies the Lessor of such election within 10 days after the final rejection in relation to the offer to purchase. Such notice shall be treated as an irrevocable election to extend the term of this Lease in respect of such Items of Equipment pursuant to clauses (a) or (b) of Section 18.1 hereof. It is expressly understood that notwithstanding the Lessee's right to notify the Lessor of its desire to purchase any Items of Equipment, the Lessor is not under any obligation to and does not currently have any intention of selling any Items at the end of the original term of this Lease. If the Lessee does not purchase the Equipment and the Lessee does not elect to extend the term of the Lease during the times provided for such election, then the Lessor may thereafter sell or lease the Equipment to any person on any terms subject only to the rights of the Lessee under this Lease with respect to such Equipment. For the purposes of this Section 18.3 the expiration of any time period specified herein without acceptance, rejection or counter-offer shall be deemed a rejection.

Upon payment of the purchase price of any Item, the Lessor shall upon request of the Lessee execute and deliver to the Lessee, or to the Lessee's assignee or nominee, a bill of sale (without recourse, representation or warranties of any kind) for such Item as will transfer to the Lessee such title to such Item as the Lessor derived from the Seller, free and clear of all liens, security interests and other encumbrances arising through the Lessor.

18.4 Delivery of Equipment. Any Items of Equipment which the Lessee has not purchased as provided in Section 18.3 hereof or as to which this Lease has not been renewed as provided in Section 18.2 hereof shall be returned to the Lessor at the end of the original term, or the then current renewal term, as the case may be, in accordance with Section 13 hereof.

SECTION 19 INTEREST ON OVERDUE RENTALS AND AMOUNTS PAID BY LESSOR.

Anything to the contrary herein contained notwithstanding, any nonpayment of rentals due hereunder, or amounts expended by the Lessor on behalf of the Lessee, shall result in the additional obligation on the part of the Lessee to pay also an amount equal to 12% per annum (or the lawful rate, whichever is less) on the overdue rentals and amounts expended for the period of time during which they are overdue or expended and not repaid.

SECTION 20 MISCELLANEOUS.

20.1 Limitations of Liability. It is expressly understood and agreed by and between the Lessor, the Trustor and the Lessee and their respective successors and assigns, that this Lease is executed by Continental Illinois National Bank and Trust Company of Chicago, not individually or personally but solely as Trustee under the Trust Agreement in the exercise of the power and authority conferred and vested in it as such Trustee (and Continental Illinois National Bank and Trust Company of Chicago hereby warrants that it possesses full power and authority to enter into and perform this Lease). It is further expressly understood and agreed by and between each of such parties that, except as otherwise provided in the Participation Agreement, nothing herein contained shall be construed as creating any liability on Continental Illinois National Bank and Trust Company of Chicago or the Trustor, individually or personally, to perform any covenant either expressed or implied contained herein, all such liability, if any, being expressly waived by the Lessee and by each and every person now or hereafter claiming by, through or under the Lessee and that so far as Continental Illinois National Bank and Trust Company of Chicago or the Trustor, individually or personally are concerned, the Lessee and any person claiming by, through or under the Lessee shall look solely to the Trust Estate as defined in the Trust Agreement for the performance of any obligation under this Lease.

20.2 Notices. Any notice required or permitted to be given by either party hereto to the other shall be deemed to have been given when deposited in the United States certified mails, first class, postage prepaid, addressed as follows:

If to the Lessor: Continental Illinois National Bank
and Trust Company of Chicago,
as Trustee under 1978
Illinois Central Gulf
Leasing Trust
231 South LaSalle Street
Chicago, Illinois 60693

Attention: Corporate Trust Department

If to the Lessee: Illinois Central Gulf Railroad
 Company
 233 North Michigan Avenue
 Chicago, Illinois 60601

 Attention: Treasurer

If to the Security
Trustee: Harris Trust and Savings Bank
 111 West Monroe Street
 Chicago, Illinois 60690

 Attention: Indenture Trust Division

or addressed to either party at such other address as such party shall hereafter furnish to the other party in writing.

20.3 Right of Lessor to Perform. If the Lessee shall fail to comply with any of its covenants herein contained, the Lessor may, but shall not be obligated to, make advances to perform the same and to take all such action as in the Lessor's opinion may be necessary to obtain such performance. All payments so made by the Lessor and all costs and expenses (including, without limitation, reasonable attorneys' fees and expenses) incurred in connection therewith shall be payable by the Lessee to the Lessor upon demand as additional rent hereunder, with interest at the rate of 12% per annum.

20.4 Certain Transactions. It is contemplated that the Participation Agreement will require the Lessee to make certain warranties and deliver certain closing documents to the Lessor. If the Participation Agreement is not executed and delivered on or prior to March 31, 1979 (or such other date upon which the Trustor and the Lessee shall agree), the Lessee agrees that on such date it will deliver to the Lessor: (i) a certificate setting forth warranties of the Lessee as to its organization and authority to enter into and perform this Lease and the Rehabilitation Agreement, which warranties will be similar to the warranties set forth in Section 8 of that certain Lease Agreement between the Lessee and CI Transportation Leasing Corporation, dated as of November 1, 1976 (the "1976 Lease"); (ii) a certificate of the Secretary or an Assistant Secretary of the Lessee as to (A) resolutions of the Board of Directors of the Lessee authorizing the lease of the Equipment hereunder and the execution, delivery and performance of this Lease Agreement and the Rehabilitation Agreement, and (B) officers and incumbency; (iii) an opinion of counsel to the Lessee to the same effect as contained in Section 25(d)(ii) of the 1976

Lease, with such changes as the Lessor may reasonably request; (iv) an appraisal certificate of Mr. Alexander Kerr, an independent appraiser, with respect to the Equipment's useful life and estimated residual value; and (v) such other documentation as the Lessor may reasonably require in respect of this Lease and the Rehabilitation Agreement. All of the foregoing items will be delivered in form and substance satisfactory to the Lessor and its counsel. If the Participation Agreement is not executed and delivered on or prior to March 31, 1979 (or such other date upon which the Trustor and the Lessee shall agree), the Lessee, the Lessor and the Trustor agree that the indemnities contained in Section 10.2 hereof shall be amended so as to be identical in substance to the indemnities contained in Section 14 of the 1976 Lease.

20.5 Execution in Counterparts. This Lease, and any lease supplemental hereto, may be executed in several counterparts, each of which so executed shall be deemed to be an original and in each case such counterparts shall constitute but one and the same instrument.

20.6 Law Governing. This Lease shall be construed in accordance with the internal laws of the State of Illinois; provided, however, that the parties shall be entitled to all rights conferred by any applicable Federal statute, rule or regulation.

20.7 Headings and Table of Contents. All Section headings and the Table of Contents are inserted for convenience only and shall not affect any construction or interpretation of this Lease.

20.8 Severability. Any provision of this Lease which is prohibited or unenforceable in any jurisdiction shall be as to such jurisdiction ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provisions in any other jurisdiction.

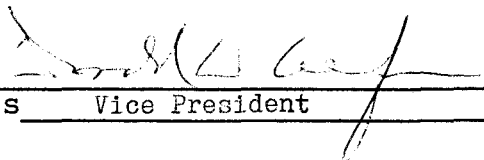
IN WITNESS WHEREOF, the parties hereto have caused this Lease to be executed by their respective officers thereunder duly authorized and the corporate seals to be hereto affixed as of the day and year first above written.

CONTINENTAL ILLINOIS NATIONAL BANK
AND TRUST COMPANY OF CHICAGO,
as Trustee under 1978 Illinois
Central Gulf Leasing Trust

[CORPORATE SEAL]

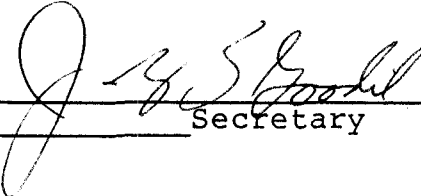
ATTEST:


Its TRUST OFFICER

By 
Its Vice President

[CORPORATE SEAL]

ATTEST:


Its Secretary

ILLINOIS CENTRAL GULF
RAILROAD COMPANY

By 
Its Vice President

STATE OF ILLINOIS)
) SS
COUNTY OF COOK)

On this 22nd day of January, 1979, before me personally appeared DONALD W. ALVIN, to me personally known, who being by me duly sworn, says that he is Vice President of CONTINENTAL ILLINOIS NATIONAL BANK AND TRUST COMPANY OF CHICAGO, that one of the seals affixed to the foregoing instrument is the corporate seal of said corporation, that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors, and he acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.

Mary Reichlin
Notary Public

[NOTARIAL SEAL]

My commission expires: MARCH 20th 1982

STATE OF ILLINOIS)
) SS
COUNTY OF COOK)

On this 23rd day of January, 1979, before me personally appeared D. E. Honker, to me personally known, who being by me duly sworn, says that he is the Vice President of ILLINOIS CENTRAL GULF RAILROAD COMPANY, that one of the seals affixed to the foregoing instrument is the corporate seal of said corporation, that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors, and he acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.

Virginia N. Shanahan
Notary Public

[NOTARIAL SEAL]

My commission expires:

May 4, 1980

SCHEDULE A-1
(to Equipment Lease)

DESCRIPTION OF ITEMS OF EQUIPMENT

DESCRIPTION AND MARK AND NUMBER OF REHABILITATED ITEMS OF EQUIPMENT:	365 70-ton 50' Box Cars (marked and numbered as set forth in the Annex attached hereto)
PURCHASE PRICE OF ORIGINAL EQUIPMENT:	\$7,325 per Item (\$2,673,625 for 365 Items)
REHABILITATION PRICE OF EQUIPMENT:	\$19,900 per Item (\$7,263,500 for 365 Items)
TOTAL COST OF EQUIPMENT:	\$27,225 per Item (\$9,937,125 for 365 Items)
PLACE OF DELIVERY:	Plants of the Lessee at Centralia, Illinois or McComb, Mississippi
OUTSIDE DELIVERY DATE:	June 30, 1979

ANNEX TO SCHEDULE A-1

365 70-ton 50' Box Cars numbered as follows:

ICG 591007	ICG 590003	ICG 567629
591010	590029	567661
591017	590050	567691
591018	590053	567729
591035	590064	567766
591040	590075	567771
591046	590088	567873
591047	590095	567924
591051	590102	567930
591058	590107	567397
591066	590112	568425
591067	590121	568446
591074	590127	568510
591083	590133	568532
591101	590134	568544
591107	590143	568567
591108	590154	568572
591127	590174	568520
591136	590187	568694
591138	590188	568758
591144	590192	568772
591145	590018	568784
591146	590019	568802
591152	590073	568509
591153	590115	568535
591154	567300	568554
591155	567301	568581
591157	567306	568615
591166	567394	568810
591168	567402	568833
591200	567405	562407
591210	567450	562408
591212	567474	562415
591224	567527	562419
591226	567548	562427
591229	567616	562468
591239	567667	562502
591260	567726	562507
591265	567733	562540
591267	567752	562617
591009	567779	562625
591026	567814	562691
591036	567834	562698
591081	567843	562740
591092	567859	562779
591095	567875	562804
591097	567331	562812
591114	567359	562884
591116	567431	562913
591172	567442	562921
591218	567477	562410
591221	567502	562413
591251	567513	562463
591274	567580	562464
591283	567610	562853

ANNEX TO SCHEDULE A-1

ICG 561052	ICG 511300	ICG 513863	ICG 550002
561055	511302	513892	550005
561057	511306	513893	550009
561061	511307	513898	550010
561084	511308	513904	550016
561089	511310	513907	550018
561091	511311	513914	550021
561216	511312	513923	550022
561221	511379	513940	550024
561225	511383	513942	550033
561233	511394	513944	550035
561236	511420	513946	550046
561248	511423	513949	550048
561282	511450	513957	550051
561288	511471	513969	550055
561298	511478	513974	550059
561031	511489	513975	550078
561209	511502	513982	550082
561261	511567	513994	550089
561059	511574	513996	550145
561604	511584	513998	550156
561605	511588	514005	550158
561606	511590	514010	550184
561609	511469	514014	550191
561611	511592	514018	550193
561614	513802	514038	550218
561627	513804	514039	550245
561652	513805	514043	550248
561677	513806	514044	550255
561612	513808	514050	550264
561707	513809	514052	550268
561708	513812	514068	550292
561712	513816	514078	550294
561714	513818	514086	550299
561716	513819	514089	550007
561786	513821	514092	550023
561792	513823	514095	550030
561843	513824	514096	550032
561975	513825	513872	550036
561763	513827	564058	550040
563506	513830	513833	550063
563509	513832	513867	550081
563517	513835	513871	550096
563527	513837	513959	550131
563535	513838	513966	550170
563537	513839	513979	550180
563549	513840	513986	550199
563508	513845	513997	550274
563511	513848	514011	550281
563538	513859	514062	550290

SCHEDULE A-2
(to Equipment Lease)

DESCRIPTION OF ITEMS OF EQUIPMENT

DESCRIPTION AND MARK AND NUMBER OF REHABILITATED ITEMS OF EQUIPMENT:	46 70-ton and 100-ton 60' Box Cars (marked and numbered as set forth in the Annex attached hereto)
PURCHASE PRICE OF ORIGINAL EQUIPMENT:	\$10,950 per Item (\$503,700 for 46 Items)
REHABILITATION PRICE OF EQUIPMENT:	\$19,150 per Item (\$880,900 for 46 Items)
TOTAL COST OF EQUIPMENT:	\$30,100 per Item (\$1,384,600 for 46 Items)
PLACE OF DELIVERY:	Plants of the Lessee at Centralia, Illinois or McComb, Mississippi
OUTSIDE DELIVERY DATE:	June 30, 1979

ANNEX TO SCHEDULE A-2

46 70-ton and 100-ton 60' Box Cars numbered as follows:

ICG 670009

670022

670025

670030

670031

~~660053~~

660057

660081

660091

660064

~~660073~~

670008

670019

670032

670159

670152

~~670166~~

~~620191~~

~~670196~~

~~660127~~

660144

660146

660155

660159

660195

660197

660122

660126

660129

660156

660182

~~660166~~

~~670249~~

620240

620248

620259

~~620261~~

670210

670215

670217

670222

670224

670227

670264

670297

670298

SCHEDULE A-3
(to Equipment Lease)

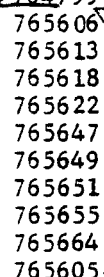
DESCRIPTION OF ITEMS OF EQUIPMENT

DESCRIPTION AND MARK AND NUMBER OF REHABILITATED ITEMS OF EQUIPMENT:	57 100-ton Covered Hoppers (marked and numbered as set forth in the Annex attached hereto)
PURCHASE PRICE OF ORIGINAL EQUIPMENT:	\$9,030 per Item (\$514,710 for 57 Items)
REHABILITATION PRICE OF EQUIPMENT:	\$19,150 per Item (\$1,091,550 for 57 Items)
TOTAL COST OF EQUIPMENT:	\$28,180 per Item (\$1,606,260 for 57 Items)
PLACE OF DELIVERY:	Plants of the Lessee at Centralia, Illinois or McComb, Mississippi
OUTSIDE DELIVERY DATE:	June 30, 1979

ANNEX TO SCHEDULE A-3

57 100-ton Covered Hoppers numbered as follows:

ICG 745215	ICG 764620
745230	764670
745236	764676
745301	764632
745305	764654
745337	764693
745357	764603
745374	764605
745386	764611
745397	764721
764300	764722
764305	764759
764306	764762
764307	764767
764448	764775
764495	764796
764500	764782
764553	764799
764554	765606
764598	765613
764327	765618
755007	765622
755022	765647
755092	765649
755126	765651
764606	765655
764607	765664
764614	765605
764617	



SCHEDULE A-4
(to Equipment Lease)

DESCRIPTION OF ITEMS OF EQUIPMENT

DESCRIPTION AND MARK AND NUMBER OF REHABILITATED ITEMS OF EQUIPMENT:	27 70-ton 60' Flat Cars (marked and numbered as set forth in the Annex attached hereto)
PURCHASE PRICE OF ORIGINAL EQUIPMENT:	\$5,275 per Item (\$142,425 for 27 Items)
REHABILITATION PRICE OF EQUIPMENT:	\$10,000 per Item (\$270,000 for 27 Items)
TOTAL COST OF EQUIPMENT:	\$15,275 per Item (\$412,425 for 100 Items)
PLACE OF DELIVERY:	Plants of the Lessee at Centralia, Illinois or McComb, Mississippi
OUTSIDE DELIVERY DATE:	June 30, 1979

ANNEX TO SCHEDULE A-4

27 70-ton 60' Flat Cars numbered as follows:

ICG 960101
960107
960122
910131
910134
910137
910142
910150
910153
960157
910158
910162
910169
960170
910173
910178
910181
910182
910183
960188
960214
960220
910161
910180
960187
960194
960200

SCHEDULE B
(to Equipment Lease)

CERTIFICATE OF ACCEPTANCE
UNDER EQUIPMENT LEASE

TO: Continental Illinois National Bank and Trust
Company of Chicago, as Trustee under the
Equipment Lease dated as of December 15,
1978 (the "Lessor")

I, a duly appointed and authorized representative of
ILLINOIS CENTRAL GULF RAILROAD COMPANY (the "Lessee") under
the Equipment Lease dated as of December 15, 1978 between the
Lessor and the Lessee, do hereby certify that I have inspected,
received, approved and accepted delivery under the Lease of
the following Items of Equipment:

TYPE OF EQUIPMENT:

PLACE ACCEPTED:

DATE ACCEPTED:

NUMBER OF UNITS:

MARKED AND NUMBERED:

I do further certify that the foregoing Items of
Equipment are in good order and condition, and appear to conform
to the Specifications applicable thereto, that the Lessee has
no knowledge of any defect in any of the foregoing Items of
Equipment with respect to design, manufacture, condition or
in any other respect, and that each Item has been labeled by
means of a plate or a stencil printed in contrasting colors
upon each side of the item in letters not less than one inch
in height as follows:

"OWNED BY AND LEASED FROM A BANK OR TRUST COMPANY, AS
TRUSTEE, AND SUBJECT TO A SECURITY AGREEMENT FILED UNDER
SECTION 11303 OF THE REVISED INTERSTATE COMMERCE ACT".

The execution of this Certificate will in no way relieve or decrease the responsibility of Illinois Central Gulf Railroad Company for any warranties it has made with respect to the Equipment.

Dated: _____, 197_.

Inspector and Authorized Representative
of Illinois Central Gulf Railroad

SCHEDULE C
(to Equipment Lease)

ILLINOIS CENTRAL GULF RAILROAD COMPANY

SCHEDULE OF CASUALTY VALUE

*The Casualty Value for an Item of Equipment payable on the Term Lease Commencement Date in respect of such Item or any rental payment date thereafter shall mean an amount equal to the percent of the Total Cost of such Item set forth opposite such date in the following schedule:

<u>Term Lease Commencement Date or Number of Fixed Rental Payment Date on which Casualty Value is Paid</u>	<u>Percentage of Total Cost Payable as Casualty Value</u>
Term Lease Commencement Date	103.704797
1	103.704797
2	103.828222
3	103.899687
4	103.918385
5	103.883500
6	103.796103
7	103.655392
8	103.460557
9	103.210774
10	102.911239
11	102.561229
12	102.160011
13	97.100691
14	96.600619
15	96.052998
16	95.457183
17	94.812521
18	94.123931
19	93.390861
20	92.612753
21	87.182879
22	86.317813
23	85.410913
24	84.461708
25	83.469728
26	82.438611
27	81.367969
28	80.257410
29	74.500394
30	73.312959

31	72.088647
32	70.827165
33	69.528220
34	68.195638
35	66.829221
36	65.427591
37	63.990509
38	62.521859
39	61.021499
40	59.487289
41	57.919017
42	56.320588
43	54.691886
44	53.029637
45	51.333603
46	49.607660
47	47.851662
48	46.062072
49	44.239817
50	42.391594
51	40.516895
52	38.617043
53	36.691546
54	34.741485
55	32.766378
56	30.766634
57	28.741772
58	26.691297
59	24.614708
60	22.514927
Thereafter	20.000000

*Casualty Value does not include any amounts for which any Tax Indemnatee (as defined in Section 10.2 of the Lease) may be entitled to indemnification under Sections 6 and/or 10.2 (for reasons other than a Casualty Occurrence) of the Lease.

SCHEDULE D
(to Equipment Lease)

INSURANCE COVERAGE

Liability Coverage provides coverage for bodily injury, property damage, Federal Employers Liability Act (including care, custody and control) and contractual liability.

Blanket Fire Coverage provides coverage for fire, lightning and extended coverage, including collision and overturn and derailment of diesels.